

# Report to the Legislature

## STATEWIDE HIPAA ASSESSMENT



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STATEWIDE HIPAA ASSESSMENT RESULTS

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## EXECUTIVE SUMMARY

In 1996, Congress passed, and President Clinton signed, one of the most sweeping bills on health care billing and privacy in our nation's history -- the Health Insurance Portability and Accountability Act (HIPAA). This law, and subsequent federal rules, will affect every aspect of how health care transactions take place.

Recognizing that the health care industry is moving into the computer age, HIPAA requires the administrative simplification (AS) of interactions between payers and providers. For example, one requirement is that providers who bill electronically must use a nationally uniform set of billing codes. Not only will HIPAA improve the efficiency and effectiveness of the entire health care system, the law also establishes important requirements for the handling of certain health care information to assure the privacy and security of patient health care data. While the costs of implementing HIPAA will be substantial, the Federal government estimates that HIPAA will result in overall savings to the national health care system. Achieving full implementation, however, will require some significant changes in the day-to-day practices of health care providers and insurers.

Chapter 635, Statutes of 2001, (Senate Bill 456, Speier), the Health Insurance Portability and Accountability Implementation Act of 2001, requires that all State departments complete an assessment by January 1, 2002, in the form specified by the California Office of HIPAA Implementation (CalOHI), to determine the impact of Health Insurance Portability and Accountability Act (HIPAA) on its operations. The bill further requires CalOHI to report the statewide results of the assessment to the appropriate policy and fiscal committees of the Legislature on or before May 15, 2002.

A Statewide HIPAA Assessment was mailed in late October and early November 2001 to state entities requesting responses by December 31, 2001 in accordance with the state law. The information from the assessments establishes a baseline of HIPAA impact and the scope of this impact. The findings from this report could be used as a basis for budget discussions on HIPAA funding. The major conclusions developed from the assessments are:

- HIPAA is much more complex than ever expected.
- Departments have concerns about the resources needed to meet the federal compliance deadlines for the different HIPAA rules as each is released and amended.

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- The length of time, the amount of funding and the level of resources necessary to implement HIPAA are influenced by the number of programs affected, the different categories of HIPAA impacts, the number of information technology (IT) systems affected and the continuing series of federal rules being issued.

### **Statewide HIPAA Assessment Findings**


Eleven State departments have programs that are HIPAA covered entities. Covered entities include health care providers that conduct electronic transactions, health plans and health care clearinghouses. Covered entities must comply with all of the AS portions of HIPAA including ensuring privacy of health information and using the nationally uniform set of billing codes and transactions. Within the eleven covered entities, additional HIPAA impacts exist that will increase the complexity of remediating business processes and IT systems to achieve compliance with HIPAA requirements. Six of the eleven covered entities are within the Health and Human Services Agency, with the other five each from different agencies. The State departments with covered entity functions include:

- Department of Aging
- Department of Alcohol and Drug Programs
- Department of Corrections
- Department of Developmental Services
- Department of Forestry and Fire Protection
- Department of Health Services
- Managed Risk Medical Insurance Board
- Department of Mental Health
- Department of Personnel Administration
- Public Employees' Retirement System
- Department of Veterans Affairs

In addition, twelve other State departments were identified as being impacted by HIPAA, but not as covered entities. The State departments that have functions that are impacted by HIPAA include:

- California State Controller
- Emergency Medical Services Authority
- Employment Development Department
- Health and Human Services Agency Data Center
- Office of Statewide Health Planning and Development

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- Department of Industrial Relations
  - Inspector General for Veterans Affairs
  - Department of Managed Health Care
  - California Medical Assistance Commission
  - Department of Social Services
  - Victims Compensation and Government Claims Board
  - Department of Youth Authority

Over three hundred different public and private organizations have business relationships with the State departments impacted by HIPAA.


## **Status of State Departments**

Most covered and impacted State departments have performed a preliminary analysis, identified initial issues with implementation, and have determined which of their programs and functions are impacted by HIPAA. A few of these departments have begun or completed a project plan and only two (2) have begun a detailed assessment of the disparity between their current processes and the HIPAA requirements. At the time of the assessment, no State departments had begun remediation of their business processes or information technology systems.

Despite the impending Privacy Rule deadline in April 2003 and the Transactions and Code Sets deadline in October 2003, 16 State departments (or 70 percent of the impacted State departments) are only in the first two stages of HIPAA compliance. These first two stages are an initial analysis to become aware of HIPAA impact, and the performance of an inventory of the impact HIPAA will have on business processes or IT systems.

## **California Challenges**

HIPAA presents many challenges to California State Government. The most significant are:

- The impact to State departments will be considerable with substantial resources (staff, time and money) being used for a significant length of time.
  - Tight time frames and resource constraints have implications for impacted entities to overcome as they move forward with HIPAA implementation.
  - Each program within State departments must uniquely assess the impact of HIPAA on their business processes and remediate them as necessary.
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- Complying with HIPAA and developing compatible systems with private industry providers presents a tremendous challenge.
- Meeting federal HIPAA compliance timeframes as cost effectively as possible is a significant issue for California.

Late implementation of HIPAA by a State department could result in several different consequences to clients and business relationships. These include:

- An immediate impact to private industry organizations that have business relationships with State departments would occur. For example, a hospital sending and receiving transactions to and from Medi-Cal (Department of Health Services) could be forced to operate dual systems to ensure payment from Medi-Cal. This also would be true for hospitals, nursing homes, health care providers, suppliers of health care equipment, etc.
- Failure to pay private health care industry service providers could eventually result in the cessation of services to clients eligible for State services.
- Federal sanctions could be levied against California's Medicaid funding.
- The federal government is required to cease processing Medicare claims from noncompliant departments that do not submit a compliance plan pursuant to the federal extension bill.
- Negative publicity that could result from any of the above consequences.

### **Next Steps**

CalOHI's goal is to work with the Legislature, State departments, counties and the private sector, to ensure that implementation of HIPAA occurs in an effective and efficient manner. To be effective, implementation must not result in a reduction in the quality and level of health care that the State provides or purchases. Implementation must be cost-efficient because the State's initial HIPAA investment will be significant. However, with enterprise strategies, coordination, prudent funding, and information sharing, California can meet the challenge of HIPAA implementation and create a health care system that will reap the benefits of standardization, simplification and protection of the privacy rights of patients receiving health care.

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## INTRODUCTION

In 1996, Congress passed, and President Clinton signed, one of the most sweeping bills on health care billing and privacy in our nation's history -- the Health Insurance Portability and Accountability Act (HIPAA). This law, and subsequent federal rules, will affect every aspect of how health care transactions take place.

Recognizing that the health care industry is moving into the computer age, HIPAA requires the administrative simplification (AS) of interactions between payers and providers. For example, one requirement is that providers who bill electronically must use a nationally uniform set of billing codes. Not only will HIPAA improve the efficiency and effectiveness of the entire health care system, the law also establishes important requirements for the handling of certain health care information to assure the privacy and security of patient health care data. While the costs of implementing HIPAA will be substantial, the Federal government estimates that HIPAA will result in overall savings to the national health care system. Achieving these goals, however, will require some significant changes in the day-to-day practices of health care providers and insurers.

SB 456 requires all State departments subject to HIPAA to complete an assessment in a form specified by CalOHI by January 1, 2002, to determine the impact of HIPAA on their operations. Other State departments are also required to cooperate to determine whether they are subject to HIPAA, including providing a completed assessment. CalOHI is required to report the findings of this assessment to the Legislature.

This Legislative Report provides the results of the State departments' assessments. The report covers:

- The process used by CalOHI to assess HIPAA's impact on State government departments,
- Identification of impacted State departments,
- Impacted State department's implementation efforts,
- The characteristics of the departments that are impacted by HIPAA, including their phase of HIPAA compliance,
- Information about the scope of the impact to the departments and the secondary impact to stakeholders and customers, and

- A concluding discussion on further actions to be taken to implement HIPAA in California.

It should be noted that the departmental assessment data was completed in December 2001, thus providing only a point in time view. The results will establish the baseline status of HIPAA impact and implementation for monitoring and compliance by State departments. This report provides information that can be used in making decisions concerning budgeting and allocations for HIPAA implementation.

## BACKGROUND

CalOHI is responsible for providing Statewide leadership, policy formulation, direction, coordination, and oversight to ensure the successful implementation of federal HIPAA rules. At the same time, State departments are directed by SB 456 to coordinate with CalOHI in achieving compliance with HIPAA.

### The New Federal HIPAA Regulations

One part of the AS requirements is the national standardization of electronic Transactions and Code Sets. Providers who bill electronically must use a nationally uniform set of billing, procedure and diagnostic codes, such as ICD-9-CM, CPT-4, and HCPCS codes when transmitting bills for medical equipment, supplies or health care services. The Transactions and Code Sets Rule was published in August 2000 with compliance required by October 2002. Recent federal legislation extended the compliance date to October 2003 for those organizations that submit a compliance plan to the U. S. Department of Health and Human Services (DHHS) by October 2002.

In addition to Transactions and Code Sets Rule, AS will be implemented through a series of rules that are discussed below.

#### Privacy Rule

The HIPAA Privacy Rule establishes requirements for the handling of certain health care information to ensure the privacy of patient health care data. The privacy provisions of the federal law apply to health information created or maintained by health care providers who engage in certain electronic transactions, as well as health plans, and health care clearinghouses. DHHS issued the Privacy Rule, "Standards for Privacy of Individually Identifiable Health Information," applicable to entities covered by HIPAA, on December 28, 2000 with a compliance date of April 14, 2003. It is important to note that DHHS released a proposed amendment to the Privacy Rule on March 27, 2002.

#### Security Rule

The HIPAA Security Rule establishes new standards to protect the confidentiality, integrity, and availability of individual health information. No existing federal standard provides uniform comprehensive protection of individual health information. HIPAA mandates new security standards to protect an individual's health information, while permitting the appropriate

access and use of that information by the individual, health care providers, clearinghouses, and health plans. The Security Rule will provide a standard level of protection in an environment where health information pertaining to an individual is housed electronically and/or is transmitted over telecommunications systems/networks. The Security Rule was released as a proposed rule on August 12, 1998. It is expected the final rule to be published in the summer of 2002.

### Other Rules

Proposed rules were published for the national provider identifier on May 7, 1998 and on June 16, 1998; however, no final rules have been published to date. Other federal AS rules will address national employer identification, national health plan identification, claims attachments, electronic signatures, national individual identifier and enforcement. The proposed rules for these six (6) items have yet to be released by the DHHS. Appendix B shows the federal schedule for the release of the HIPAA rules.

## **Assessment Methodology/Process**

CalOHI developed the Statewide HIPAA Assessment (assessment) to assist State departments determine the impact, scope and status of HIPAA implementation within departments and programs. The assessment was based on two different documents developed by the State of North Carolina and the California HIPAA Statewide Workgroup's Privacy, Confidentiality and Security Issues Sub-Workgroup. These two tools were synthesized and modified by CalOHI. Special emphasis was placed on designing the tool to be as user friendly as possible given the very complicated nature of HIPAA requirements. CalOHI augmented the assessment with a series of questions to solicit information on the impacts (status, scope and fiscal) departments would experience. The final California assessment tool can be found in Appendix C.

The assessment was sent out to approximately 300 different State departments and interested parties in late October and early November 2001, including each board and commission within the California Department of Consumer Affairs. State departments were asked to return the completed document to CalOHI no later than December 31, 2001. CalOHI conducted two training sessions to assist State departments in completing the assessment documents, with invitations to the training sessions being sent to all State departments that received the assessment, as well as members of the California Statewide HIPAA workgroup.

For some of the State departments, the assessment was their first introduction to HIPAA. As a result, some of these departments needed more time to complete the assessment, with some of the assessments arriving at CalOHI in early February. However, all the information provided by State departments reflects the status of the HIPAA efforts as of December 31, 2001.

Initial CalOHI review of the completed assessments raised some questions. This was not surprising considering the newness of HIPAA to the State departments, the very complicated and changing nature of the HIPAA requirements, and the fiscal environment at the time the assessment was completed. As a result, the CalOHI team validated each of the assessments received from State departments that indicated they were impacted as well as personally contacting or meeting with them. Issues ranging from minor inconsistencies in the document to significant questions concerning the HIPAA categories were discussed. Based on these discussions, some State departments modified portions of the responses in the assessment and all the data used for this report is that submitted by the departments.

### **Covered Versus Impacted Entities**

Under HIPAA rules, covered entities must comply with all the HIPAA rules, including the regulations that govern electronic transmission of information, privacy and security of information and the remaining regulations DHHS will be releasing. Covered entities are organizations or agencies that perform functions considered to be those of a health care plan, health care clearinghouse, or health care provider. Impacted entities are organizations or agencies that are business associates to a covered entity (perform a function that would otherwise be performed by a covered entity), trading partners with a covered entity (exchange individually identifiable health information with covered entities) or are impacted by data content changes.

## 1. COVERED STATE DEPARTMENTS

To determine initial HIPAA impact to State departments, the assessment asked some basic questions. The first question asked if the State department has any individually identifiable health information (IIHI). If the response was “no,” the State department did not need to complete the remainder of the assessment. This is because HIPAA is fundamentally about the handling and use of IIHI. If the answer was “yes,” the State department was asked to respond to a series of questions designed to determine if it was impacted by HIPAA.

The HIPAA rules apply to programs and organizational functions identified as **covered entities**. For a department or its programs to be a HIPAA covered entity, it must be a:

- **Health care provider** – A medical doctor, dentist, psychiatrist, pharmacist, etc. who transmits individually identifiable health information (IIHI) electronically.
- **Health plan** – A group health plan, health insurance issuer, Health Maintenance Organization (HMO), Medicare, Medicaid, etc.
- **Health care clearinghouse** – A public or private entity that processes or facilitates the processing of nonstandard data elements of health information into standard data elements.
- **Hybrid Entity** – An organization is designated a hybrid entity when it has programs or functions that are considered those of a covered entity, but the programs or functions are not the primary function of the organization.

The assessments identified eleven (11) State departments with programs that are HIPAA covered entities. The 11 State departments include:

- Department of Aging
- Department of Alcohol and Drug Programs
- Department of Corrections
- Department of Developmental Services
- Department of Forestry and Fire Protection
- Department of Health Services
- Managed Risk Medical Insurance Board
- Department of Mental Health
- Department of Personnel Administration
- Public Employees’ Retirement System
- Department of Veterans Affairs

## 2. IMPACTED DEPARTMENTS

Even if a Department does not contain any covered entities such as a plan, provider, clearinghouse, or hybrid designations, HIPAA provides for three different impacted categories that represent business relationships that covered entities have with non-covered entities. When covered entities contract with non-covered entities and share IIHI, the non-covered entity must still safeguard the exchange of personal health information. The covered entity is required to assure that its contracted business partners comply with the HIPAA rules and is required to terminate the contract when it is unable to assure that a non-covered entity will do so.

To be an impacted entity, a department, its programs or its functions must be those of a business associate, a trading partner, or be impacted by data content.

- ✓ **Business Associate** – An organization is designated a business associate when it performs a function on behalf of a covered entity when the function involves IIHI.
- ✓ **Trading Partner** – An organization is designated a trading partner when it exchanges IIHI via electronic transmission with a covered entity.
- ✓ **Impacted by Data Content** – An organization is designated as impacted by data content when it receives or sends any codes or transactions that will be modified by HIPAA.

Twelve departments that are **not** covered entities indicated in the assessments that the departments, their programs or their functions are impacted.

- California State Controller
- Emergency Medical Services Authority
- Employment Development Department
- Health and Human Services Agency Data Center
- Office of Statewide Health Planning and Development
- Department of Industrial Relations
- Inspector General for Veterans Affairs
- Department of Managed Health Care
- California Medical Assistance Commission
- Department of Social Services
- Victims Compensation and Government Claims Board
- Department of Youth Authority

### 3. MULTIPLE IMPACTS

Departments can have many different programs that perform various functions. As a result, divisions within departments, programs and/or their functions can be defined by multiple HIPAA category definitions. Departments can have more than one HIPAA covered entity category and more than one impacted entity category. For example, some affected divisions within the Department of Health Services include:

- The Genetic Disease Branch is a health care provider, a health care plan, and a trading partner;
- The Medi-Cal program is a health care plan, a business associate, and trading partner;
- While not a covered entity, the California Diabetic Pregnancy Program is a business associate; and
- All of these programs are impacted by data content changes.

The Department of Developmental Services is a hybrid entity that has programs that are health care providers, health care clearinghouses, business associates, trading partners and impacted by data content. An example of an impacted department is the California State Controller. This is because the Controller has programs and/or functions that are business associates, trading partners and/or impacted by data content. They perform no covered entity functions.

The Department of Managed Health Care has indicated that it is a health care oversight agency. This department is impacted by data content. The federal HIPAA rules define a **health care oversight agency** as a government agency that is authorized by law to oversee government programs in which health information is necessary to determine eligibility or compliance. A health care oversight agency, in and of itself, is not a covered entity or impacted entity.

The Department of Insurance determined that the condition under which they receive IIHI does not conform to any of the designated categories under the HIPAA law. The Department does receive and maintain IIHI, most typically as part of consumer complaints regarding insurance company claims handling and company examinations. However, the information is not used in the context of conducting business transactions or other conditions as appropriate to the designated covered entities.

The State departments and their programs that fall under the designation of covered entities and impacted entities are discussed respectively in Appendices D and E. The table following presents an overview of how the different State departments identified the impacts of HIPAA on their programs and functions, showing the multiple impacts, and the complexity of the HIPAA impact on State government.



## STATE DEPARTMENTS' HIPAA IMPACTS

HIPAA COVERED AND HIPAA IMPACTED DEPARTMENTS	CONTAINS ONE OR MORE COVERED ENTITIES				CONTAINS ONE OR MORE IMPACTED ENTITIES		
	Health Care Provider	Health Care Plan	Health Care Clearinghouse	Hybrid Entity	Business Associate	Trading Partner	Impacted by Data Content
Aging, Department of		X		X	X	X	X
Alcohol and Drug Programs, Department of		X			X	X	X
Controller, California State					X	X	X
Corrections, Department of	X			X		X	X
Developmental Services, Department of	X		X	X	X	X	X
Emergency Medical Services Authority						X	X
Employment Development Department							X
Forestry and Fire Protection, Department of	X			X	X		X
Health and Human Services Agency Data Center					X		
Health Planning and Development, Statewide							X
Health Services, Department of	X	X			X	X	X
Industrial Relations, Department of						X	X
Inspector General for Veterans Affairs					X		
Managed Health Care, Department of							X
Managed Risk Medical Insurance Board		X				X	X
Medical Assistance Commission, California					X		X
Mental Health, Department of	X	X			X	X	X
Personnel Administration, Department of		X			X	X	X
Public Employees' Retirement System		X		X		X	
Social Services, Department of					X		
Veterans Affairs, Department of	X	X				X	X
Youth Authority, Department of							X

NOTE: The Department of Insurance has identified themselves as a regulator of insurance companies with an indirect HIPAA impact. Managed Health Care indicated that they are a Health Care Oversight Agency.

Figure 1 - State Departments' HIPAA Impacts

#### 4. PROGRAM IMPACTS

As discussed above, the State departments that indicated their programs or functions were covered or impacted entities were asked to identify HIPAA impact by program or function. This was requested because programs and functions will be impacted differently, depending on each program's business practices. The programs could be impacted as covered entities (plans, providers, or clearinghouses), business associates, trading partners and/or impacted by data content changes. As a result, State departments can show numerous and varied HIPAA impacts.

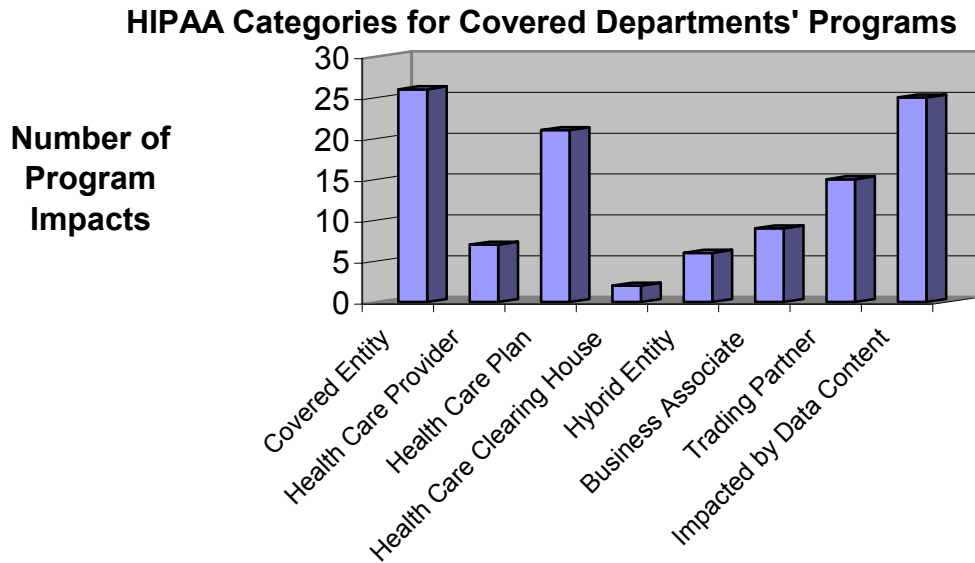
The Department of Health Services (DHS) is an example of such numerous and varied impacts that are reflected in the table below:

#### DEPARTMENT OF HEALTH SERVICES PROGRAM IMPACTS

Type of HIPAA Impact	Number of Program Impacts
Covered Entity Health Care Provider	2
Covered Entity Health Care Plan	11
Covered Entity Clearinghouse	0
Hybrid Entity	0
Business Associates	5
Trading Partners	4
Impacted by Data Content	18
<b>TOTAL NUMBER OF PROGRAM IMPACTS</b>	<b>40</b>

Figure 2 - Department of Health Services Program Impacts

The HIPAA designations, when applied to programs and functions, provides a view of the magnitude of the HIPAA impact on State business functions. For example, the Department of Developmental Services reported that their department is a health care clearinghouse. However, when looking at the individual programs, two health care clearinghouses actually exist; one in the Client Financial Services in the Administration Division and the other in the Developmental Center Operations/Services. The following chart reflects the various HIPAA impacts for covered departments.



**Figure 3 - HIPAA Categories for Covered Departments' Programs**

As stated earlier, because departments have responsibility for more than one program and a program may have more than one HIPAA designation, the total number of HIPAA designations exceeds the number of programs and departments impacted. Appendix F provides more detail on the covered departments and their various programs HIPAA impacts. As Appendix F indicates, HIPAA rules apply to forty-nine programs within the 23 covered and impacted departments. Because of multiple impacts, there are 18 covered department programs of which eight are health care providers, 21 are health care plans, and two are clearinghouses. Additional HIPAA impacts to these programs include 19 business associates, 18 trading partners and 41 impacted by data content.

## 5. DEPARTMENTS' INTERNAL BUSINESS RELATIONSHIPS

As previously indicated, covered entities are required to enter into contracts to ensure compliance with HIPAA rules by the organizations with which it exchanges IIHI. One of the requirements of HIPAA for business relationships is that specific administrative activities be initiated, maintained and monitored. A trading partner relationship must be formalized with a trading partner agreement and a business associate relationship must be formalized with a business associate agreement. A chain of trust agreement is required when a department exchanges health information as part of data content when a trading partner or business associate relationship does not exist. For example, the need for a chain of trust agreement may occur when a covered entity is releasing IIHI to a research firm. To quantify the impact to covered entities' programs and functions, the assessment asked State departments to identify their business relationships that are impacted by HIPAA.

Surprisingly, over three hundred different kinds of business relationships were identified. Those State departments identifying themselves as HIPAA covered entities have business relationships with more than 250 of those kinds of business organizations. The Department of Health Services alone identified 145 types of relationships that exist within their different programs and functions. The Department of Mental Health follows with 38 different kinds of relationships. The stakeholders, trading partners and business partners that were most often identified as having business relationships with the State departments impacted by HIPAA are the counties, insurance companies, the Department of Health Services, and the Department of Social Services. A detailed display of the business relationships identified is provided in Appendix G.

Many business relationships exist between different State departments. The assessments highlighted these HIPAA relationships. Sixteen State departments that did not identify a HIPAA impact in their assessments were identified by covered and impacted entities as having a relationship that will require a contract to continue the business relationship with that entity. The sixteen State departments include:

- ✓ Department of Consumer Affairs
- ✓ Department of Corporations
- ✓ Department of Education
- ✓ Franchise Tax Board
- ✓ California Highway Patrol
- ✓ Department of Industrial Relations
- ✓ Inspector General
- ✓ Department of Justice

- ✓ Department of Motor Vehicles
- ✓ Parole Board
- ✓ Board of Prison Terms
- ✓ Department of Rehabilitation
- ✓ Secretary of State
- ✓ State Controllers Office
- ✓ State Compensation Insurance Fund
- ✓ Workers' Compensation Appeals Board

These departments likely are not aware of the impact HIPAA may have on their business operations. Depending upon the type of business relationship, these departments have the potential to be impacted by HIPAA when the covered entity is responsible to safeguard the IHI that is shared.

Of the 23 impacted departments, 10 have met with their business partners to discuss HIPAA roles and responsibilities as well as impacts on business processes. The impacted departments that have met with their business partners are:

- State Controller
- Department of Developmental Services
- Emergency Medical Services Authority
- Health and Human Services Data Center
- Department of Health Services
- Managed Risk Medical Insurance Board
- California Medical Assistance Commission
- Department of Mental Health
- Office of Inspector General for Veterans Affairs
- Public Employees' Retirement System

## **6. HIPAA RULE IMPACT**

DHHS has adopted a unique approach to rule development for HIPAA. This is the first time that federal rules are being adopted from standards developed by the health care industry. Unlike past one-time federal rule changes, HIPAA is the first time that continuing amendments to the rules are expected as implementation occurs and the industry's and consumers' needs change. As each new federal rule is released, the impacted State departments and their programs will likely require separate assessment and information technology remediation steps.

The assessment asked covered and impacted departments which of the current federal HIPAA rules, Transactions and Code Sets or Privacy, impacted their programs and functions. Often both rules impacted a department. Twenty-three State departments are impacted by the HIPAA Transactions and Code Set Rule and/or the Privacy Rule. Of that 23 at the time of the assessment, 18 indicated they are impacted by the Transactions and Code Set Rule and 21 indicated they are impacted by the Privacy Rule. Four State departments indicate they are impacted by the Privacy Rule alone. The Department of Social Services indicates that it is not impacted by either the Transactions and Code Set Rule or the Privacy Rule, however, they are pursuing a detailed assessment to better identify more accurately any HIPAA impact. Appendix H provides a detailed list of each State department's identification of rule impact.

## 7. QUANTIFYING THE MULTIPLE HIPAA IMPACTS

Determining the degree of HIPAA's effect on impacted State departments is very complex. The variety of HIPAA impacts on State departments, their programs and functions, and the size and diversity of the programs and business relationships sets the stage for complex implementation strategies. The sequential method that DHHS is using to publish rules for HIPAA as well as the changes in other federal and State laws creates new challenges with each issuance of proposed or final rules. Putting all these factors together presents only a partial picture of the impact of HIPAA on State business practices.

### California Impacts

- Within the 23 covered and impacted State departments, HIPAA impacts 48 programs.
- Within the 48 programs, State departments reported 133 different HIPAA category or designation impacts.
- Because of California's size and diversity, programs that serve as many as 6 million California citizens (Medi-Cal beneficiaries through the Department of Health Services) and as few as 5,000 State employees (Supplemental life insurance through the Department of Personnel Administration) are impacted.
- Over 300 kinds of organizations have business relationships with the covered and impacted State departments.

### Impacts As a Result Of DHHS Rule and Policy Changes

Continuous regulatory publication by DHHS will also impact each of these programs. Examples of the types of impact expected include:

#### Proposed Rules:

DHHS is expected to propose rules for National Employer Identifier, National Health Plan Identifier, National Individual Identifier, Claims Attachments, Electronic Signatures, and Enforcement. It has published a proposed amendment to the rule for Privacy.

**Final Rules:**

DHHS is expected to issue final rules for Security and National Provider Identifier soon.

**Updates to Rules:**

DHHS has stated that it anticipates that the final rules are to be updated as needed, as demonstrated by the release of a proposed amendment to the Privacy Rule in March 2002, after the final rules were published in December 2000.

**DHHS Policy Releases:**

Policy guidance is released both in the form of Frequently Asked Questions (FAQ's) and program memorandums.

## **Other Federal Law Changes**

Other federal law changes such as the U.S. Provide Appropriate Tools Required to Intercept and Obstruct Terrorism (PATRIOT) Act for new homeland security will also impact HIPAA requirements. As DHHS releases each new federal policy or rule, the impacted State departments and their programs will likely require separate assessment and information technology remediation steps.

The length of time, the amount of funding and the overall level of resources necessary to implement HIPAA are influenced by the number of programs impacted, the different categories of HIPAA impacts, the number of systems affected and the series of federal rules being issued.



## 8. CURRENT STATE DEPARTMENT ACTIVITIES

### Steps to HIPAA Compliance

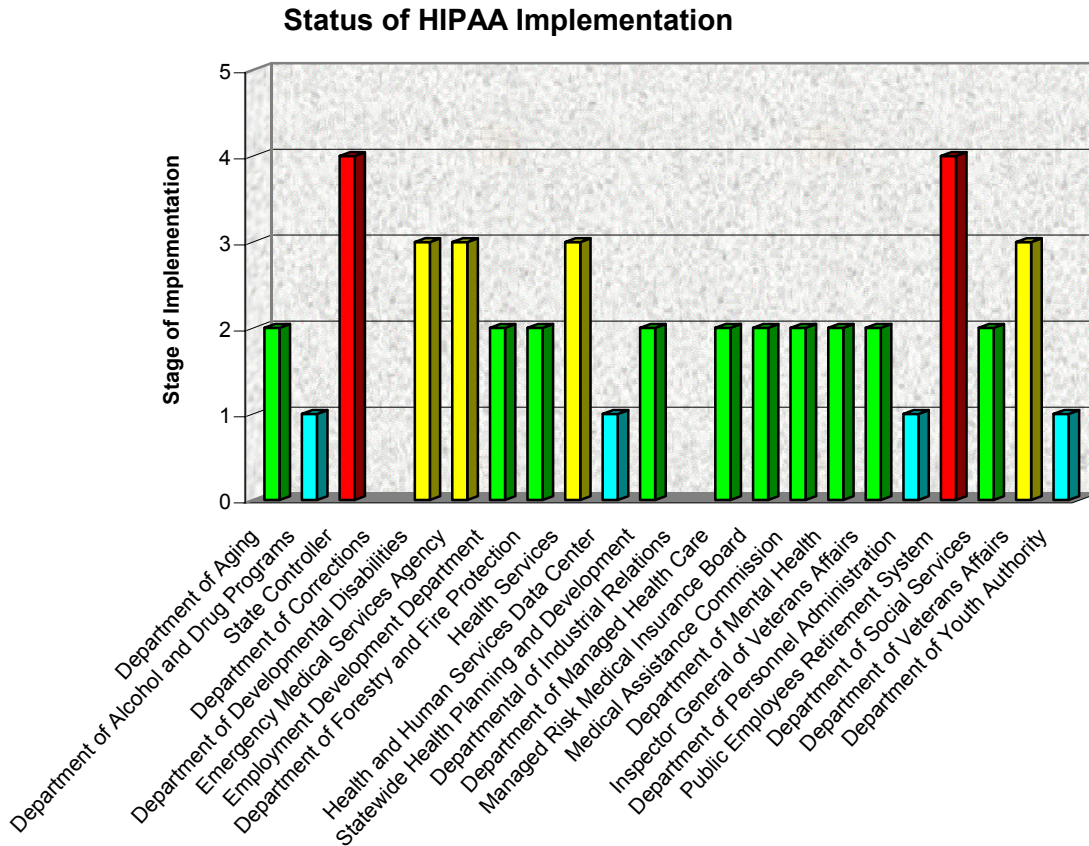
CalOHI developed the “Steps to HIPAA Compliance” (Appendix I), that uses standard definitions of project planning and development. This tool supports the tracking and reporting of State department progress towards HIPAA compliance. As part of the assessment, State departments were asked to identify which (if any) of the five steps to HIPAA compliance listed below they had begun:

- ✓ **Project Initiation** (also called **Awareness**) helps identify the main issues the department may have to address to create an initial Project Plan and identify tasks to establish compliance. This step needs to be established with executive level sanctioning of the efforts. Twenty-one State departments have begun or completed the project initiation.
- ✓ **Initial Assessment** (also called an **Inventory**) establishes which of the department’s programs and functions are impacted. This step also identifies a department’s business partners and external interfaces with which it will need to interact as it implements any changes. Sixteen State departments have begun or completed the initial assessment.
- ✓ **Project Plan** identifies the main tasks and milestones for achieving compliance, designates staff for each task and establishes dates for task completion. The Plan becomes a tool for monitoring progress and establishes a detailed resource and cost estimate for the project. Six State departments have begun or completed the project plan.
- ✓ **Detailed Assessment** (also called a **Gap Analysis or Impact Assessment**) has program staff looking at the gaps between the current process and procedures compared to the Federal HIPAA rules. It also investigates the options and desired tasks needed for achieving compliance to the rules. Two State departments have begun or completed the detailed assessment.
- ✓ **Implementation** (also called **Remediation**) is the final step. It involves making the changes to processes, procedures and automated systems, training staff, testing all changes, testing with business partners, having a coordinated implementation process, and monitoring the new processes. No State departments have begun or completed the implementation.

Variations of these steps may be needed for different State departments depending on the extent of changes and number of business partners and/or external interfaces involved. Because HIPAA is a series of Federal rules that are being released over an extended time, several of the above steps may need to

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be repeated as the rules change. Appendix J provides details about how each department designated their progress through the different HIPAA compliance steps. Some departments indicated that they had not started implementing HIPAA. The various stages of HIPAA implementation reported by departments are displayed below:



**Figure 4 - Status of HIPAA Implementation**

It is clear that some impacted State departments are much farther along in their steps to compliance than other departments. The reasons for these differences are varied, but include:

- When the State department became aware of HIPAA
- Size of the State department and the number of programs impacted by HIPAA
- Types of programs impacted by HIPAA
- Availability of funding for HIPAA activities
- State department initiative in seeking further information and instruction on HIPAA to better plan for and ensure compliance
- Degree of executive sponsorship for HIPAA compliance

The Department of Health Services, for example, has reached the **project plan** step of HIPAA compliance. The Department became aware of HIPAA in its early stages and has been actively involved in HIPAA forums at a national level, is a large department with a large number of programs impacted by HIPAA, has large and varied types of programs and had requested funding for HIPAA activities.

Another example is the California Public Employees Retirement System (CalPERS), which has reached the **detailed assessment** step of HIPAA compliance. They became aware of HIPAA in their early stages and moved forward to contract for a translator to translate HIPAA noncompliant transactions (e.g., enrollment, disenrollment and maintenance between CalPERS and the health plans) to HIPAA compliant transactions and codes.

Other impacted State departments (Department of Mental Health, Department of Alcohol and Drug Programs, Department of Developmental Services, Department of Aging, and the Office of Statewide Health Planning and Development) are in various phases of the steps to HIPAA compliance. Notably, many of the impacted State departments other than those discussed above have only recently become aware of HIPAA and its potential impact on them.

## Contractors

One of the many ways that impacted State departments are attempting to become compliant with HIPAA is with the use of contractors. This is an efficient and cost effective way to get the skilled talent needed for short-term projects related to HIPAA implementation. Several impacted State departments have contracted with vendors who are experienced with HIPAA and thus able to help move forward in implementing HIPAA requirements. Although impacted State departments have indicated much success with the use of contractors, the assessment identifies that only six of the twenty-three covered and impacted State departments are currently using contractors. Appendix K provides a detailed listing of the impacted State departments that are using contractors as well as the name of the contractor and the types of contracted work.

## Project Management

The assessment identifies a small number (six) of covered and impacted State departments that have established Project Management Offices to centrally manage all HIPAA related activities and projects. The State departments that have established offices are:

- Department of Alcohol and Drug Programs
- Department of Developmental Services

- Department of Health Services
- Managed Risk Medical Insurance Board
- Department of Mental Health
- Department of Social Services

In addition, ten of the impacted State departments have identified project management strategies they are using as part of their effort to comply with HIPAA requirements. Strategies being used by departments range from coordination with local agencies, establishing project offices, to establishing an executive steering committee for monthly review of all efforts to implement HIPAA. Appendix L provides a more detailed description of departmental strategies.

### **National Standard Setting Groups and National Organizations**

In an attempt to keep current with the multitude of issues and changes with HIPAA that impact the decision making process, a few impacted State departments have become affiliated with and/or participated in HIPAA national standard setting workgroups and other HIPAA national organizations. For example, the Department of Health Services currently is participating with the following national organizations:

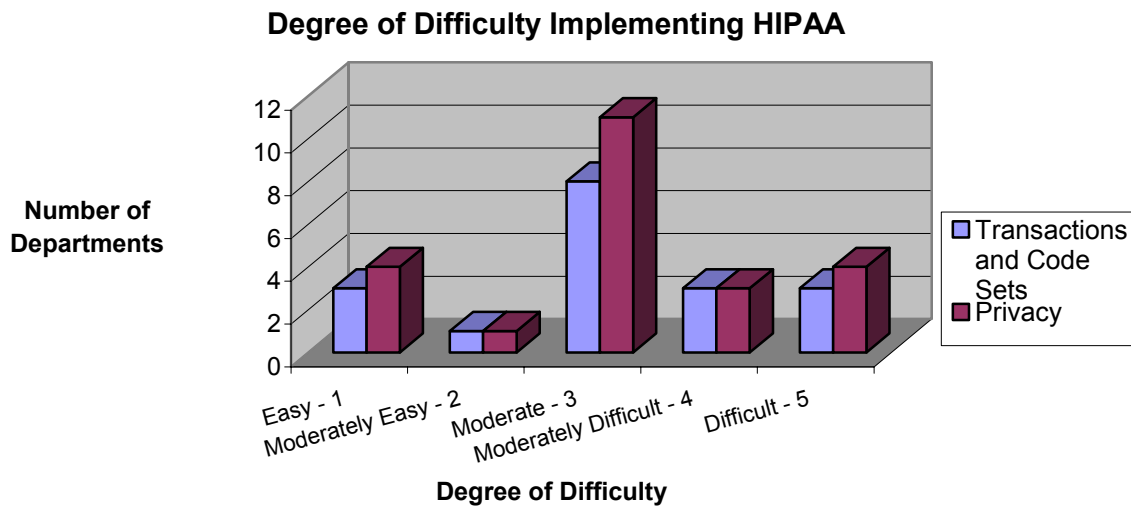
- ✓ Strategic National Implementation Process, Workgroup for Electronic Data Interchange (SNIP Wedi)
- ✓ National Committee on Vital Health Statistics (NCVHS)
- ✓ Health Level 7 – Designated Standard Maintenance Organization (HL 7 – DSMO)
- ✓ National Uniform Claim Committee and National Uniform Billing Committee (DSMO) – (NUCC & NUBC)
- ✓ Accredited Standards Committee X 12 (DSMO)

Appendix M provides information from the assessment that identifies the impacted State departments that are participating and identifies the national workgroups and organizations with which they are involved.

## 9. SCOPE OF HIPAA IMPACT

### Degree of Difficulty to Implement HIPAA

The assessment asked covered and impacted State departments to identify the degree of difficulty they anticipated in implementing the Transactions and Code Sets Rule and the Privacy Rule, as well as to identify areas of potential noncompliance. State departments were asked to rate the degree of difficulty from one being easy to five being difficult. For both the Transactions and Code Sets Rule and the Privacy Rule, two State departments reported the degree of difficulty to be easy, 12 between easy and difficult and 3 very difficult.



**Figure 5 - Degree of Difficulty to Implement HIPAA**

Impacted State departments identified several areas of potential noncompliance, with most of the focus being on Medi-Cal/Medicare and other types of health claims processing, including information technology remediation. Other areas include training of staff on privacy, protection of IIHI, protection of IIHI as individual subscriber information is transmitted electronically, and management of IIHI.

## Information Technology Impact

Identifying the information technology (IT) system impact of HIPAA is currently one of the top responsibilities for the State departments and its business partners. Before the true impact to the State departments' systems can be identified, each program within the 23 State departments must perform the detailed assessment step to investigate the options and necessary tasks needed to achieve compliance. After completion of the detailed assessment step, the implementation step, which includes IT system remediation, can begin. Remediation includes making the necessary changes to IT systems, using clearinghouses to change codes into standard codes, or using translators to bring a covered entity into compliance. Testing of each impacted State IT system(s) as well as integration testing with all their business partners is also part of the remediation process. Each of these stages will take considerable time to complete. For example, the Department of Health and Human Services acknowledged the length of time needed to test IT systems in the most recent changes to HIPAA requirements (Transactions and Code Set Rule implementation delay) in which it requires testing of impacted IT systems to begin 6 months prior to implementation of the rule.

The importance of the detailed assessment and remediation of the impacted State departments' IT systems is emphasized by the fact that health care provider claims processing would be impacted if remediation is delayed. In addition, the health care provider community and possibly consumer services could be impacted if these changes are not made in a timely manner. Further, if State departments are unable to process HIPAA compliant transactions and codes, then the possibility exists that health care providers that are able to process HIPAA compliant transactions and codes may have to run dual automated systems in order to submit claims for payment. The most obvious area of impact is Medi-Cal claims processing.

The sixteen affected programs within the Department of Health Services (DHS) utilize approximately 150 IT systems that HIPAA impacts. Many of the covered and impacted State departments also have IT systems that interface with DHS IT systems and will be involved in the remediation of those systems. Other State departments have identified impacted IT systems that perform the following processing and/or are maintaining functions for:

- Health Care Provider Claims
- Client Eligibility
- Client Enrollment
- Client Status
- Pharmacy Information
- Medical Records
- Accounting

- Billing
- Other Data Critical to Each Department's Business Functions

## **Customer Interfaces**

HIPAA will also impact patients and consumers. Although the administrative simplification requirements are expected to result ultimately in substantial savings to health providers and payers, including Medicaid agencies, the requirements are targeted to better quality and more streamlined care for consumers. The impacted State departments have identified the following consumers as some of their customer interfaces:

- The Frail and Elderly
- Persons with Developmental Disabilities
- Persons with Mental Illness
- Medi-Cal Recipients, Including Children
- All California Citizens Needing Emergency Health care

The impacted State departments have expressed concern that consumer services could be delayed or diminished if health care provider claims processing is delayed.

## **HIPAA Challenges**

There are current and continuing challenges to covered and impacted State departments resulting from HIPAA. Detailed assessment of business processes, impact to business partners/shareholders, remediation of IT systems, and working to assure that consumer services are not delayed or diminished will take significant resources (time, staff, money). It should be noted that at the time the State departments responded to this question, the Transaction and Code Set federal rules were effective October 2002, rather than the current date of October 2003. The impacted State departments identified (in the December 31, 2001 assessment), the following major and specific challenges they face:

- Ability to Process and Pay Claims
- Ability to Set Appropriate Rates for Services
- Changes to IT Systems (Remediation)
- Data Storage
- Electronic Transfer of Information
- Ability to Complete Eligibility, Enrollment and Disenrollment Functions
- Possible Changes to Reimbursement Strategies
- Possible Changes to Claims Payment Processes
- Working with Business Partners/Stakeholders to Assure Compliance with HIPAA Electronic Transactions



In addition, impacted State departments project the following challenges to occur in the HIPAA implementation process:

- Obtaining the funding needed to implement HIPAA
- Substantial and extensive implementation requirements for the HIPAA privacy rule
- Obtaining State law changes for data disclosure
- Need for ongoing revisions to IT systems due to upcoming, and then annual changes in federal requirements
- Upcoming substantial and extensive implementation requirements for the security rule

### **Potential Impact to Clients and Business Relationships**

Late implementation of HIPAA by a State department could result in several consequences. These include:

- An immediate impact to private industry organizations that have business relationships with State departments would occur. For example, a hospital sending and receiving transactions to and from Medi-Cal (Department of Health Services) could be forced to operate dual systems to ensure payment from Medi-Cal. This also would be true for hospitals, nursing homes, health care providers, suppliers of health care equipment, etc.
- Failure to pay private health care industry service providers could eventually result in the cessation of services to clients eligible for State services.
- Federal sanctions could be levied against California's Medicaid funding.
- The federal government is required to cease processing Medicare claims from noncompliant departments that do not submit a compliance plan pursuant to the federal extension bill.
- Negative publicity that could result from any of the above consequences.



## 10. FISCAL IMPACT

One of the critical tasks confronting the State is to determine the fiscal impact of HIPAA. However, a number of factors make it difficult to identify what the final costs of HIPAA compliance will be. As discussed above, the federal government has decided to issue HIPAA rules sequentially over a number of years. Because of this process, State departments will have to determine the costs for compliance as each final rule is issued. Another major factor is that before an estimate of remediation costs can be determined, State departments must conduct preliminary and detailed assessments on the impact of each HIPAA rule on the programs, business practices, and information technology systems. Consequently, the State will have to fund the detailed assessments or gap analysis so that the full extent of remediation costs can be determined.

The assessment requested each State department to estimate the fiscal impact of HIPAA and to attempt to identify those costs over a five-year period. It is important to note that the assessment was not designed to produce a definitive estimate of the projected cost for statewide compliance to the Transaction and Code Sets and Privacy Rules. Instead, the assessment provides a point in time estimate as of December 31, 2001. The assessment attempted to identify which State departments have started the process of determining a fiscal impact and what the potential magnitude of the initial costs of compliance might be. Although Part II of the assessment did solicit specific cost estimate information, the totals reflected are a point in time estimate. ***This information should not be used as a final indicator of statewide costs for HIPAA compliance to the Transactions and Code Sets and Rules. A more reliable estimate of costs will be determined as part of the budget process.***

### Findings

The primary objectives for collecting fiscal information from the assessment were:

- 1) To determine State departments' awareness of the fiscal impact of HIPAA compliance, and
- 2) To begin a process for developing a cost estimate to keep the State moving steadily toward HIPAA compliance for all impacted State departments during fiscal year 2002-03.

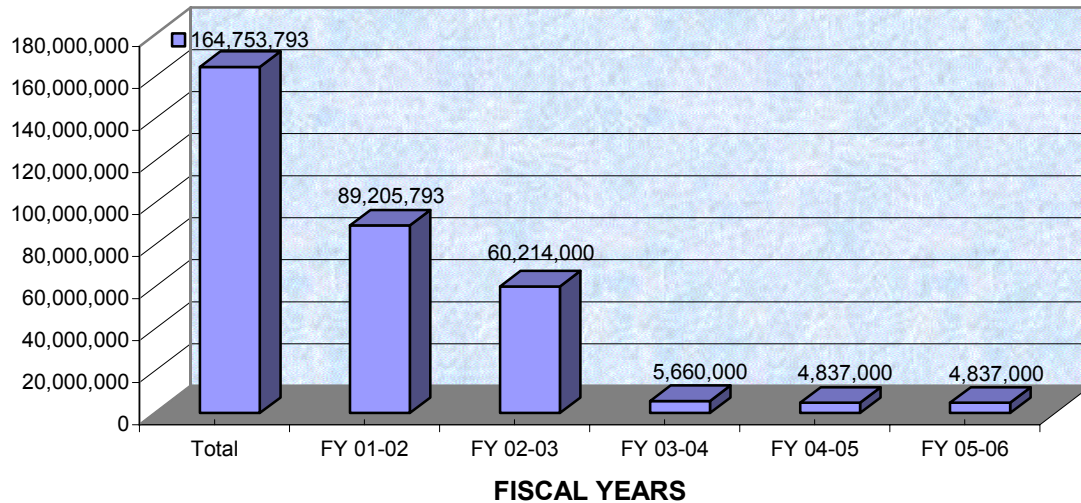
Of the twenty-three State departments that are impacted by HIPAA, 19 reported no current funding, and four reported some funding in fiscal year 2001-02.

Of the 19 departments without funding, eleven expected to request funding for the fiscal year 2002-03. Only one State department reported having received approval for some funding in its base budget to perform HIPAA compliance activities. However, upon follow-up with that department, it was found that they did not have authorization to expend the funds. Thus, no State department had any funds in their fiscal year 2001-02 base budget for HIPAA. (The departments with funding had obtained it through Budget Change Proposals.)

Eleven of the impacted departments indicated they would be requesting funding, more significantly, six and seven, respectively, were either not planning to request funds or had not responded. (This result is attributed to the fact that most of the newly identified covered and impacted State departments are only beginning to become aware of the effect of HIPAA to their programs.) When added together, this means that over 50% of the identified impacted State departments will need, but have not requested, resources to conduct initial and detailed assessments of their programs.

### **Estimated Cost of Remediation**

The assessment also asked State departments to estimate the total costs of remediation for the first two HIPAA rules. Of the 23 State departments reporting, nine answered this question and provided the entire estimate for the remediation costs. There is no information available on the cost for the other fourteen. It was expected that many departments would be unable to provide an estimate of the costs of remediation because they had not performed their initial program inventory. The 14 departments that did not respond fit in this category. Note that six of the nine State departments account for approximately 98 percent of the reported remediation costs.

**ESTIMATED REMEDIATION COSTS FOR THE FIRST TWO HIPAA RULES****Figure 6 – Estimated Remediation Costs for the First Two HIPAA Rules**

The preceding chart shows how the six of the nine reporting departments separated their costs by fiscal year. Three departments are not shown on the chart as they did not separate costs by fiscal year. As expected, the highest percentage of the estimated remediation costs is in the first two years, fiscal years 2001-02 and 2002-03. This is consistent with the federal deadlines for implementation of the first two rules.

**As stated earlier, only nine State departments reported remediation costs. Fourteen of the 23 State departments did not report any remediation costs on the assessment. The lack of reporting of this item emphasizes that, at least as of December 2001, the majority of State departments are just becoming aware of the impact that HIPAA will have on operations. They have not had time to develop sufficient awareness of HIPAA to begin to develop an estimate of the costs. Chart 6 provides only a partial estimate of the minimum statewide costs for HIPAA remediation.**

Projected expenditures also indicate when the highest percentage of the estimated remediation costs will be needed. Estimated costs beyond the second year are not likely to be useful for projecting future funding needs because of the uncertain information regarding issuance of federal rules.

The State departments that are only impacted (i.e., non-covered entities) will not have to meet the federal deadlines as a matter of statutory compliance, but risk having major disruptions to their business practices and relationships to HIPAA covered business partners if they do not make the adjustments to account

for HIPAA changes. On the other hand, a covered entity must meet the federal deadlines or be subject to the applicable HIPAA penalties, in addition, are subject to the business risk of having major disruptions to their business practices if they do not meet the deadlines.

The State departments need to be engaged in significant HIPAA compliance activities during the upcoming budget year. A significant number of the State departments have not yet recognized the need for funding and may lose valuable time if they do not receive it. The assessment points out that HIPAA must be addressed sequentially as described in Appendix I, Steps to HIPAA Compliance. Remediation costs and activities can only be determined after a detailed assessment is completed. The assessment information indicates that major HIPAA compliance activities will need to be started and completed in fiscal year 2002-03.

### **Funding Sources**

Currently, the Medi-Cal Program has the only known federal funding source available for HIPAA costs. HIPAA compliance activities associated with the California Medi-Cal Management Information System (CA-MMIS) can be claimed at a 90/10 federal to State funding ratio. Other HIPAA compliance activities associated with Medi-Cal can be claimed at the 75/25, and 50/50 sharing ratio depending on the nature of the expenditures and the approvals received. For State departments that have no association with Medi-Cal, the only source of funding is General Fund. Of the 23 impacted State departments, only five reported that they were eligible for some federal reimbursement.

### **FEDERAL-STATE FUNDING RATIOS**

<b>Eligibility Criteria</b>	<b>Sharing Ratio</b>	<b>Approval Requirements</b>
Automated System Development Costs meeting specific federal criteria	90% Fed/ 10% State	Federally Approved Advance Planning Document (APD)
Operating Costs for Automated Claims	75% Fed/ 25% State	Federally approved System
System Operating Costs	50% Fed/ 50% State	No federal approval unless total expenditures are over \$5,000,000.
Cost for Eligibility Systems	50% Fed/ 50% State	Only if over \$5,000,000
Administrative Costs	50% Fed/ 50% State	No approval needed.

**Figure 7 – Federal-State Funding Ratios**

## 11. DEPARTMENTS REPORTING NO HIPAA IMPACT

Forty-six State departments reported they had access to IIHI, but were not impacted by HIPAA. This indicates that these departments have IIHI but do not have any programs or functions that are covered entities. In addition, the IIHI that the departments have is not transmitted from a covered entity with which a business relationship exists. These State departments include:

Chiropractic Examiners, Board of  
Conservation Corps, California  
Consumer Affairs, Department of  
Acupuncture Board  
Arbitration Review Board  
Athletic Commission  
Automotive Repair  
Barbering and Cosmetology Program  
Contractors State License, Board of  
Electronic and Appliance Repair  
Geologists and Geophysicists, Board of  
Guide Dogs for the Blind, Board of  
Hearing Aid Dispensers Examining Committee  
Home Furnishings  
Medical Board  
Occupational Therapy, Board of  
Optometry Board  
Osteopathic Medical Board  
Pharmacy Board  
Physician Assistants Committee  
Podiatry Board  
Private Postsecondary and Vocational Education  
Professional Engineers and Land Surveyors, Board of Registration for  
Psychology, Board of  
Respiratory Care Examining Committee  
Security and Investigative Services  
Speech-Language Pathology and Audiology Examining Committee  
Telephone Medical Advice Services  
Vocational Nurse and Physical Technician Examiners  
Conservation Corps, California  
Education, Department of - State Special Schools and Services  
Energy Resources, Conservation and Development Commission  
General Services, Department of  
Inspector General, Office of the  
Judicial Performance, Commission  
Justice, Department of

Motor Vehicles, Department of  
Personnel Board, State  
Pesticide Regulation, Department of  
Prison Terms, Board of  
Rehabilitation, Department of  
Transportation, California Department of  
Unemployment Insurance Appeals Board, Department of Employment Development  
Vocational Education Board  
Youth and Adult Correctional Agency  
Youthful Offender Parole Board

A few of the above State departments reported that their departments have the potential to be impacted by HIPAA. For details about the potential impact, see Appendix N.

### **State Departments with No IIHI**

One hundred and six State departments reported having no IIHI. These departments do not have any IIHI other than that which is part of their human resources management. Appendix O provides a listing of these State departments. In addition, only two percent (8) of the departments did not respond to the assessment as of the time of publication.

## 12. SUMMARY OF IMPACTS

The overall impacts to State government business are summarized in the following chart. It should be noted that this is based on the initial assessment made by departments that were beginning to become familiar with HIPAA rules. Often the assessment was the first introduction to HIPAA for the state departments. Note: the data for this report was current as of December 31, 2001.

### NUMBER AND TYPES OF HIPAA IMPACTS ON STATE DEPARTMENTS

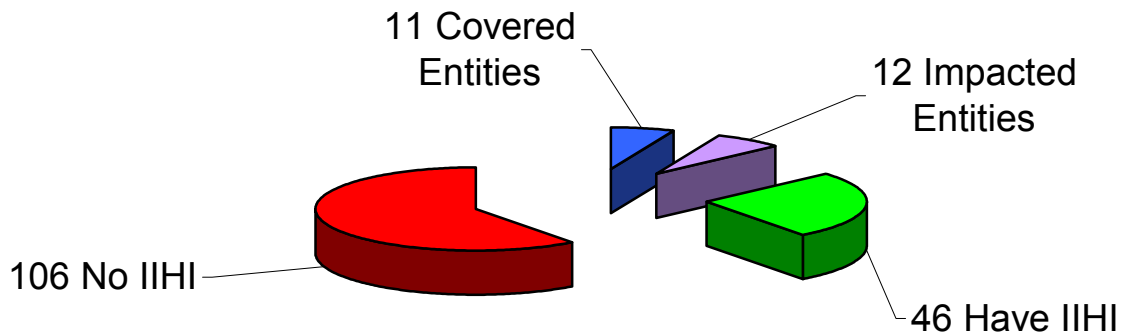


Figure 8 – Number and Types of HIPAA Impacts on State Departments

## **13. CalOHI MAJOR ACCOMPLISHMENTS**

Since its beginning in October 2001, CalOHI has accomplished a number of key responsibilities identified for the office in SB 456 (Speier). Although not fully staffed, the office was able to develop and release the Statewide HIPAA assessment by the end of October and the CalOHI kickoff was completed in November 2001, one month after the inception of the office. The following shows the accomplishments of CalOHI in its' first six months:

### **Statewide HIPAA Assessment**

- ✓ Developed Statewide HIPAA assessment document that has now been used in several other states
- ✓ Conducted the Statewide HIPAA assessment and established the initial HIPAA baseline for State departments in California

### **State Department Liaisons**

- ✓ Established liaison with State departments, raised awareness, and provided support to them in completing their assessments

### **Fiscal Reporting Structure**

- ✓ Developed a fiscal reporting structure for quarterly reports

### **Statewide Workgroup**

- ✓ Reorganized the Statewide workgroup and maintained a strong role for the counties to continue to participate

### **HIPAA Policies and Procedures**

- ✓ Initiated development of Statewide HIPAA policies and procedures

### **Advisory Committee**

- ✓ Formed the Advisory Committee to assist CalOHI in coordinating HIPAA implementation as required by SB 456



**CalOHI Website**

- ✓ Implemented the CalOHI website ([www.ohi.ca.gov](http://www.ohi.ca.gov))

**State Law Preemption**

- ✓ Began the State law vs. HIPAA preemption analysis

**Training Consortium**

- ✓ Developed a training consortium with other Western states

**Enterprise Solutions**

- ✓ Working with the State departments to develop enterprise solutions and thus pool, time, resources, and money to work together toward HIPAA compliance

**Process To Review HIPAA Rules**

- ✓ Developed process to comment on HIPAA proposed rules that works with the State departments to solicit their comments and send a unified California position to the Department of Health and Human Services

**Master Services Agreement**

- ✓ Collaborate with the Department of General Services to develop a Master Services Agreement to help State departments locate contractors

Appendices P and Q contain a detailed description of CalOHI's responsibilities and the accomplishments identified above.

## CONCLUSION

HIPAA has been described as a broad and sweeping change to the health care industry. It intends to improve the Medicare and Medicaid programs, as well as other public and private health programs. This improvement will be completed by simplifying the administration of the system, enabling the efficient electronic transmission of certain health information, and requiring new safeguards to protect the security and confidentiality of that information.

The increased use of technology is contributing to advancements in medical diagnosis and treatment. New clinical devices, biotechnology, digital information technology, and pharmaceuticals exist alongside manual billing systems utilizing non-standard codes. HIPAA is attempting to resolve this dichotomy and set the foundation from which health care advancements can be made available in a way that is efficient and respectful of individual privacy. The scope of this change is so far reaching that DHHS adopted a sequential approach to the development and issuing of rules as described in the report. The impact on California's State departments will be considerable with substantial resources being used for a significant length of time.

These complexities forecast a long and complex journey to achieve HIPAA compliance. HIPAA will dictate that the culture of health care delivery must change in order to achieve efficiency, and ensure the privacy of the patients and the security of their records. New business practices will have to be developed and long-term training practices instituted to maintain these new standards. As the health care industry becomes standardized, the practices of the private and public health care industries will begin to appear more similar.

There are obstacles and consequences for impacted departments to overcome as part of the tight timeframes and minimal available resources. Required compliance measures cannot be completely standardized, because impacted State departments' business processes are not. Therefore, the programs must uniquely assess the impact of HIPAA on their business processes and remediate them as necessary.

California's State departments have a tremendous challenge complying with HIPAA and developing compatible systems with private industry providers and plans. Because HIPAA was originally targeted for private health plans and providers, the bulk of the initial benefits and savings will not accrue to the State. Rather, in the long term, the State should achieve efficiencies and compatibilities with private providers and plans that improve the overall level of health care that it provides or purchases. However, the cost of HIPAA compliance is a significant issue for California.

CalOHI's goal is to work with the Legislature, departments, counties and private sector, to ensure that implementation of HIPAA occurs effectively and efficiently. To be effective, implementation must not result in a reduction in the quality and level of health care that the State provides or purchases. Implementation must be cost efficient because the State's initial HIPAA investment will be significant. However, with enterprise strategies, coordination, and information sharing, California can meet the challenge of HIPAA implementation and create a health care system that can also reap the benefits that are occurring now and into the future.